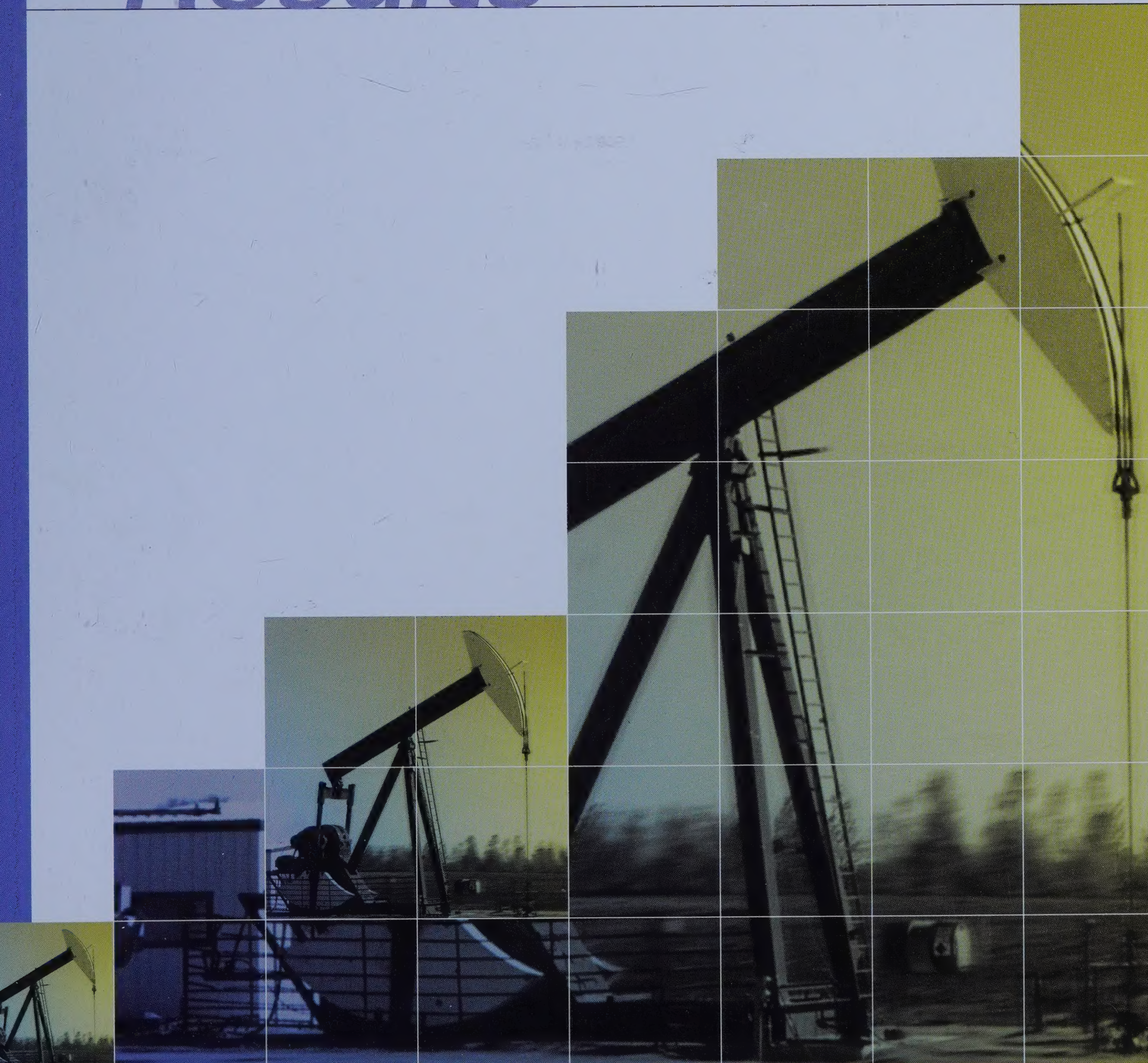
CAVELL
ENERGY CORPORATION

Results



Annual Report 2000

Corporate Profile

Cavell Energy Corporation is a Calgary, Alberta based emerging junior oil and natural gas exploration, development and production company actively expanding its production and reserve base in Western Canada. In late 1998, Cavell created a new business plan with a mandate to improve the Company's financial performance by diversifying into natural gas. Cavell's corporate objective is to demonstrate sustainable growth in production, reserves, cash flow, earnings and asset value for its shareholders. Cavell is listed on the Toronto Stock Exchange under the symbol "KVL".

AGM

The Annual General Meeting of Shareholders of Cavell Energy Corporation will be held at 2:30 pm, Wednesday, June 6, 2001, in the Royal Room on the second level of the Metropolitan Centre, 333 - 4th Avenue, SW in Calgary Alberta.

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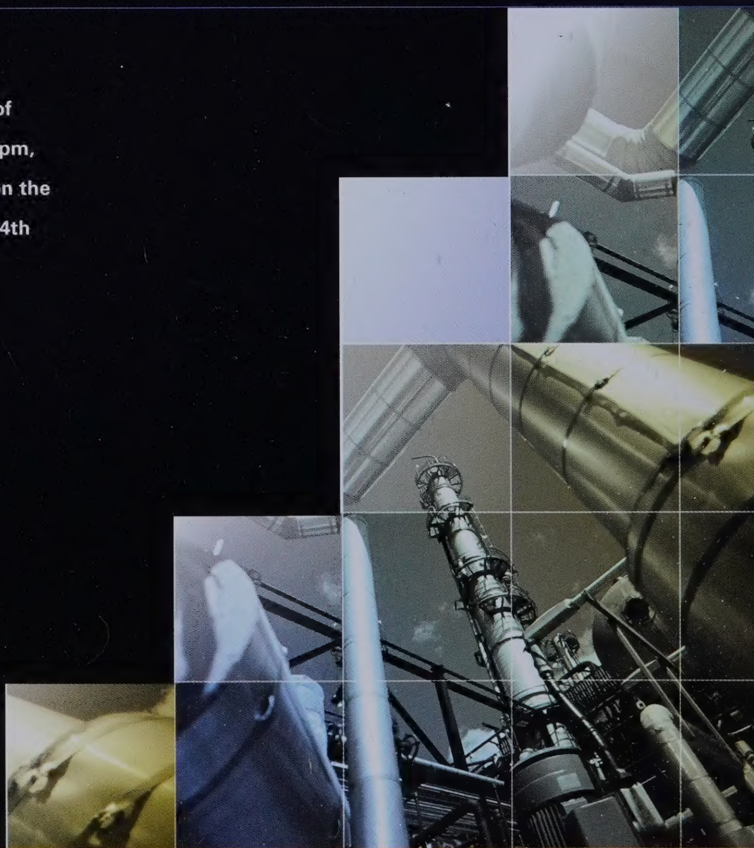


Corporate Highlights

Financial

(thousands of Canadian dollars, except per share data)	2000	1999	% Change
Petroleum and natural gas sales	**19,243**	9,115	111
Funds flow from operations	**9,017**	2,314	290
Per share – Basic ($)	**0.29**	0.08	263
Net earnings (loss)	**9,855**	(212)	4,749
Per share	**0.32**	(0.01)	3,300
Additions to capital assets (net)	**8,498**	3,322	156
Total long-term debt	**11,512**	12,701	(9)
Shareholders' equity	**23,063**	12,538	84
Common shares outstanding			
End of year	**32,295,564**	30,049,599	7
Fully diluted	**35,744,342**	34,488,438	4

Operations

Average production (boe/d)	**1,224**	1,059	16
Average sales price ($/boe)	**42.95**	23.59	82
Netbacks ($/boe)	**25.19**	11.74	115
Operating costs ($/boe)	**7.97**	6.35	26
Reserves – proven and probable	**7,051**	6,485	9
Wells drilled			
Gross	**17.0**	7.0	143
Net	**13.2**	6.7	96
Success rate (%)	**85**	70	17

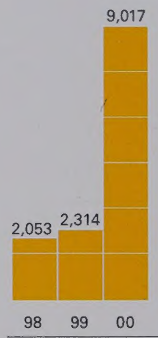
Where amounts are expressed on a barrel of oil equivalent basis (boe), gas volumes have been converted to barrels of oil at ten thousand cubic feet per barrel. The terms funds flow and cash flow are used interchangeably between the Annual Report Consolidated Financial Statements and Management's Discussion and Analysis and is prior to the change in non-cash working capital.

The Drive for Excellence

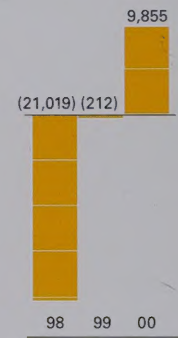
In Pursuit of Shareholder Value

In 2000 Cavell:

- **Increased cash flow by 290% to $9.0 million or $0.29/share (1999 - $2.3 million)**
- **Improved cash available for reinvestment per boe by 236% to $20.13 (1999 - $5.99)**
- **Net earnings of $9.8 million or $0.32 per share [1999 – ($0.2) million]**
- **Attained a recycle ratio of 3.86 on a proved plus probable basis and 3.07 on a proven reserve basis**
- **Improved return on equity to 42%**
- **In 12 months Cavell's share price increased 316% to $0.60 in January, 2001 compared with $0.19 in January, 2000.**



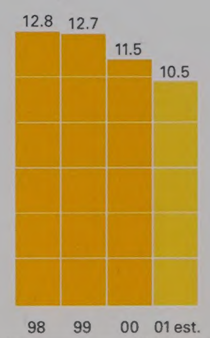
Funds Flow ($M)



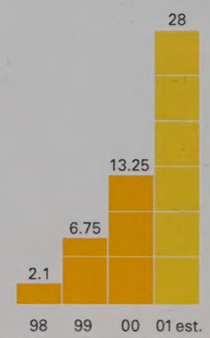
Net Earnings (loss) ($M)

In Pursuit of Efficiencies

In 2000, Cavell increased production, cash flow, earnings and reserves while at the same time reducing debt. Cavell drilled 13.2 net wells in 2000 with an 85% success rate and increased average daily production by 16% over 1999. The Company also added significant reserves through drilling by replacing 264% of 2000 production. Although the Company was an active driller through 2000, our drilling success and increased cash flow allowed Cavell to reduce total debt including working capital deficiencies from $12.7 million in 1999 to $11.5 million in 2000.



Total Debt ($MM)
(Including working capital deficiency)



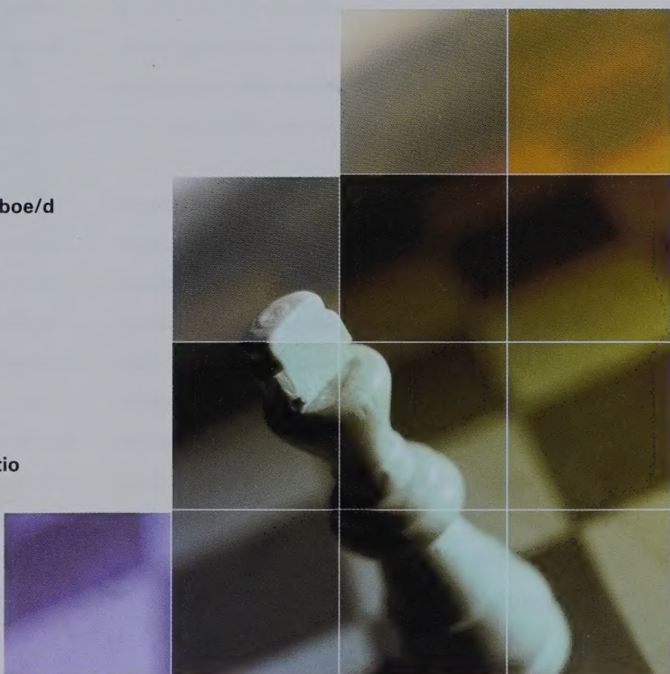
Wells Drilled (net)

In Pursuit of Goals

Our 2000 Objectives...	and Results
Establish a greater presence in our natural gas core area	✔ Cavell drilled 12 wells for natural gas, achieving an 85% success rate and increased its land holdings to 45,000 acres.
Increase natural gas production to 40% of total corporate production	✔ By year-end Cavell increased natural gas productive capacity to 6000 mcf/d, which represents 41% of year-end production capacity.
Reduce debt to less than two times 2000 cash flow	✔ Cavell's total debt including working capital deficit at December 31, 2000, was $11.5 million, while cash flow for 2000 was $9.0 million. This resulted in a year-end debt to cash flow ratio of 1.28 - 1.0.
More than double 1999 cash flow	✔ In 2000 Cavell generated a cash flow of $9.0 million, compared with a cash flow of $2.3 million in 1999.
Earnings of at least $0.10/share	✔ Cavell earned $0.32 per share in 2000.
Achieve an average rate of production of 1,300 boe/d in 2000	✔ Cavell's total corporate production for 2000 was 1,224 boe/d. This target was nearly achieved but fell short because our drilling program was delayed.

Objectives for 2001

- Achieve an 18% return on equity
- Achieve a 70% drilling success rate
- Achieve an average production rate of 1,800 boe/d
- Achieve earnings of at least $0.24 per share
- Achieve cash flow of at least $0.40 per share
- Achieve a natural gas rate of 10,000 mcf/d
- Achieve reserve additions of at least 10%
- Achieve and maintain a debt to cash flow ratio of 1.5 - 1.0 or less
- Increase natural gas production to greater than 40% of corporate production.



Letter to Shareholders

Cavell's Board of Directors and management team have a commitment to build a strong Company capable of continued long-term profitable growth.

Cavell continues to build upon the long-term strategy and business plan implemented in 1998, the goal of which is to create value for our shareholders through long-term profitable growth. Cavell's record in 2000 shows growth in reserves, production, cash flow, net earnings, return on equity and a reduction in debt. We continue to build on the foundation of our business plan. The plan is grounded and prudent – we continue to focus on our proven strategy of risk management and result-sensitive capital spending. Our goal is and always will be long-term profitable growth. Cavell's success is a direct result of staying the course of our business strategy. Combine this with hard work, focus, technical expertise and management controls and the result is a dynamic emerging junior oil and natural gas company with a bright future.

The principal elements of our Business Plan are:

- *Focus on natural gas* – we believe that natural gas will continue to enjoy strong commodity prices.

- *Maintain a strong balance sheet* – this gives Cavell the financial flexibility to thrive in any economic condition and to take advantage of strategic opportunities as they arise. By astutely investing our shareholders' capital and quickly converting the investment to cash flow, we can achieve excellent results while maintaining a strong debt-averse balance sheet.

- *Identify, quantify and manage risk* – this process ensures that Cavell's capital program will continue to produce positive results by continually assessing risk and rate of return on investment. Cavell has established a rigorous set of economic criteria, to which it subjects all its projects – only the best survive. Our goal is always to be somewhat undercapitalized relative to the opportunities present in the Company. By treating capital as a scarce commodity Cavell ensures that all projects undergo a rigorous assessment.

- *Maintain focus on our core areas* – Cavell operates in a large geographic area that possesses opportunities for virtually unlimited growth. Cavell has diligently pursued the development of strategic advantages, such as a large seismic database, area specific technical expertise and mutually advantageous alliances with larger companies that provide access to land.

- *Internal prospect development and high operated working interests* – this allows Cavell to maintain a result-sensitive approach to capital spending. Cavell's working interest in the natural gas core area is 100%. We are able to quickly adjust our capital expenditures in response to results and industry conditions.

- *Financial controls* – Cavell strives to reduce costs by maintaining real time strict control of our operations and continuing to make spending efficiency a top priority. Cavell's goal is to maximize its use of capital and the return on the projects it undertakes.

At Cavell we remain dedicated to these proven strategies, which have provided the basis for our success. The activities of the past year have resulted in a Company with a strong balance sheet, a growing production base and an expanding natural gas business unit.

The importance of Cavell's natural gas production continues to grow. In 2000, this unit contributed 31% of Cavell's revenue compared with 2% in 1999. Its relative value and contribution continued to increase through 2000. During the fourth quarter, natural gas contributed over 43% of revenue compared with just 13% in the first quarter.

Core Areas

Cavell's three core areas offer significant opportunities in both natural gas and crude oil. These areas offer a combination of opportunities for growth through low risk development and exploitation, as well as offering excellent low to medium risk exploration prospects. Cavell has experienced drilling and operational successes in East Central Alberta and West Central Saskatchewan and these areas remain the focus of Cavell's aggressive development and exploitation activities. These shallow depth multi-zone areas offer low risk exploitation and exploration opportunities in both natural gas and oil and the areas possess easy access to an extensive system of infrastructure pipelines and facilities. This extensive system of infrastructure allows Cavell to bring its drilling successes to production swiftly, thereby converting our capital investment to cash flow in a timely and financially rewarding manner.

South East Saskatchewan is Cavell's long-term light oil production and reserve base. It is Cavell's original core area of operation and remains an important contributor to the financial success of the Company. The area holds mature long-lived reserves as well as ample opportunity for high impact horizontal drilling. Cavell had the foresight during the protracted downturn in oil prices to develop an inventory of light oil horizontal drilling prospects, which it will continue to exploit in the first quarter of 2001. Light oil remains a premium commodity in the world market and the development of Cavell's light oil prospect inventory will ensure the continued stability of its light oil production and reserve base.

Results

2000 was a defining year for Cavell, one which clearly demonstrated the viability of its business plan. Cavell has been able to successfully pursue production and financial growth through its exploration, exploitation and development activities. Our focus on lower risk multi-zone natural gas areas is delivering profitable growth, an expanding production base and an increasing range of activity.

Cavell's total capital expenditures in 2000 were $8.5 million. In the context of the oil and gas industry,

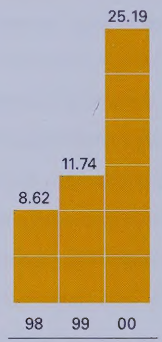
2000 was a defining year for Cavell, one which clearly demonstrated the viability of its business plan.

this was a relatively modest budget. However, the impact of the budget was not. Cavell increased production by 16%, our proved reserve base by 7%, achieved an 85% drilling success rate, increased cash flow by 290%, and increased earnings by 4,749%. Cavell also achieved a proved reserve replacement ratio of 269% and a recycle ratio of 3.07 on established proved reserves.

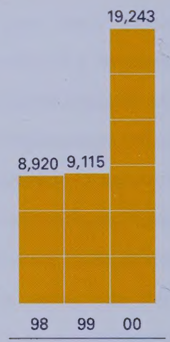
In 2000 Cavell drilled 13.2 net wells resulting in nine gas wells and 2.2 oil wells. It shot or acquired over $0.8 million of seismic and spent in excess of $1.0 million on land acquisition. The majority of Cavell's efforts were directed in the pursuit of natural gas in East Central Alberta and in West Central Saskatchewan. As a result of these activities, Cavell is well positioned to continue its trend of profitable growth and plans to increase its weighting to natural gas. We believe that natural gas will continue to experience strong demand and favourable pricing. Accordingly, Cavell has positioned itself to take advantage of this cycle with a large seismic database, a growing land position and a large inventory of drillable natural gas prospects.

Efficiencies

Cavell continues to make progress towards its goal of being a low-cost producer. In 2000, Cavell was successful in reducing its unit costs for interest and general and administration expenses on a boe basis by 9% and 22% respectively. While unit operating costs increased in 2000 due to Cavell's re-activation of marginal, but highly economic wells, Cavell generated higher economic returns which are reflected in the improvement in its recycle ratio. Its growing weight



Field Netbacks ($/boe)



Gross Revenue ($M)

towards natural gas and increased commodity prices combined to provide net income per boe of $13.97. This high netback, which compares with relatively low finding and development costs, resulted in a 3.07 recycle ratio on a proved reserve basis. Bottom line profitability improved from a loss of $0.2 million in 1999 to income of $9.8 million in 2000. This level of income provided shareholders with a rate of return on equity of 42%.

While increasing production, cash flow, earnings and reducing debt, Cavell also significantly increased its inventory of undeveloped land in its natural gas core area. At the end of 2000, Cavell held approximately 45,000 acres of land in this area representing an 80% increase over 1999. The Company has pursued a highly targeted strategy of prospect acquisition. Cavell does not believe in trend land acquisition. The Company has the benefit of a large seismic database, which totals over 5,000 kilometres. As a result, Cavell has been able to develop an extensive prospect inventory through an aggressive program of Crown and freehold leasing and through strategic large-scale farmins. This approach has allowed Cavell to assemble a high quality land position at low cost.

2001 Outlook

The changes that we have implemented have transformed Cavell. A strong and expanding asset base supports the Company's growth and the results continue to uphold Cavell's strategy and business plan. In the first three months of 2001, Cavell drilled eight wells resulting in five natural gas wells and three oil wells. By early March, Cavell was producing 2,000 boe/d, which is an increase of 62% compared with the fourth quarter average rate of production of 1,235 boe/d in 2000. This increase was achieved by bringing six of the drilled wells to production; a further 1,000 mcf/d will be tied in after breakup.

Oil and natural gas prices remain highly volatile and require considerable attention when planning capital programs. We recognize that industry conditions can change very quickly and Cavell has the flexibility to accelerate or throttle back its capital program in response to changing conditions.

Cavell's capital expenditure plans for 2001 are focused on increasing Cavell's exposure to natural gas and to a lesser extent on achieving more modest increases in its oil production. In 2001, Cavell expects to achieve growth in both its light oil and heavy oil production bases with a weighting towards light oil. During the remainder of the year, Cavell plans to drill an additional 19 net wells in our core areas and will continue to pursue its agressive strategy of seismic and land acquisition.

Cavell has established a capital budget of $14 million for 2001, including $4.5 million for land and seismic acquisition. Our 2001 budget is based upon average benchmark commodity prices of $6.00 per mcf at the Alberta Field gate and $U.S. 26.00/bbl for West Texas Intermediate oil. These assumptions will allow Cavell to attain its forecast average production volumes of 1,800 boe/d. The capital program is expected to generate cash flow in excess of $14 million or $0.40 per outstanding share. By early March Cavell was well on its way to achieving its production targets.

Cavell is well positioned operationally and financially to achieve significant growth in 2001. Our strategy is working. We have a highly dedicated and focused staff. We have an extensive inventory of prospects and we are entrusted with continued support from our shareholders. This combination will allow Cavell to reach new heights and record levels of profitability.

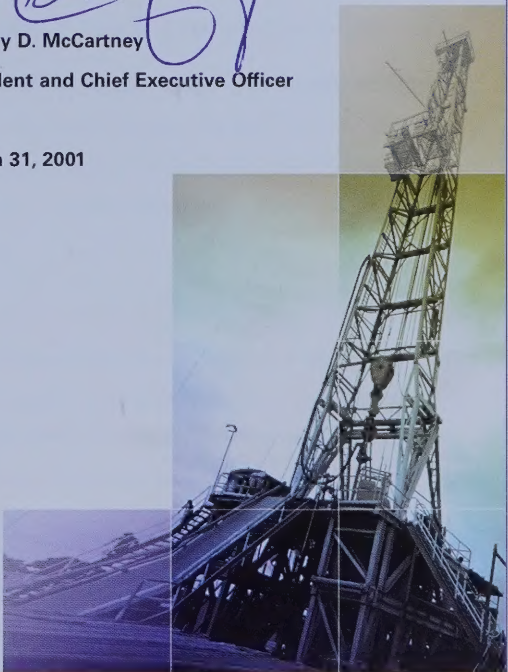
I wish to thank our shareholders for their continuing support, our Board of Directors for their guidance and steadfastness and our employees for their efforts and dedication.

On behalf of the Board of Directors,

David J. Evans Ph.D.
Chairman

Murray D. McCartney
President and Chief Executive Officer

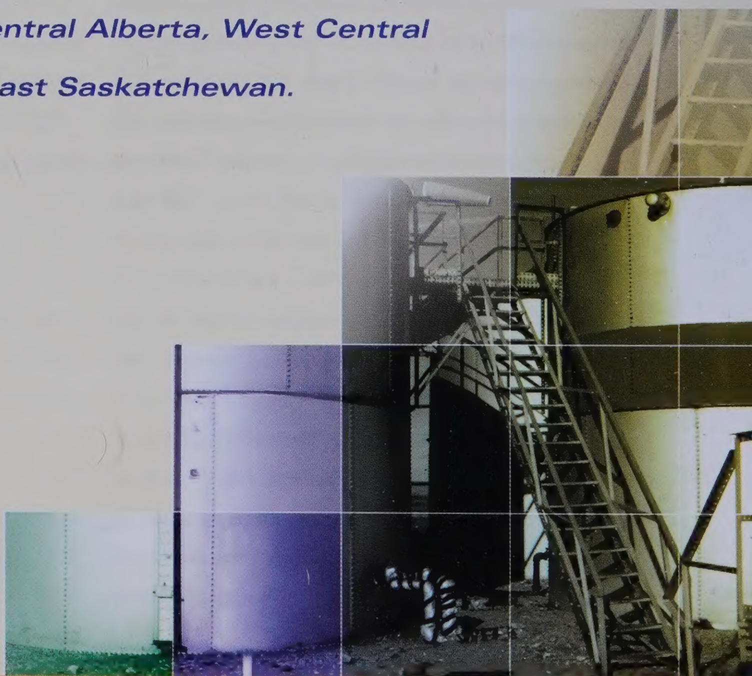
March 31, 2001



Operations and Exploration Review

During 2000, Cavell's asset base grew significantly through investment in exploration, development and land acquisition in its three core areas. This exploration and development program included the drilling of 17 (13.2 net) wells, primarily in our East Central Alberta and West Central Saskatchewan core areas, with an overall success rate of 85%. Cavell operated all but three of the wells and held a 100% interest in 13 of them.

Cavell's major properties and activities are concentrated within three regions in Alberta and Saskatchewan. As a result of our strategic positioning in each area, Cavell has significant opportunity for expanding its exploration and development programs and commencing synergistic property acquisition programs. These core regions constitute a well-balanced portfolio of Company-operated producing properties and exploration and development prospects with significant upside potential. The three core operation areas are East Central Alberta, West Central Saskatchewan, and South East Saskatchewan.



East Central Alberta

Established in 1999, the East Central Alberta core area is currently Cavell's prime focus area. The area is characterized by moderate deliverability natural gas reserves in multiple, shallow depth horizons in the Cretaceous and Devonian formations. Principal targets are natural gas in the Viking, Sparky, Rex, Colony, Glauconite, Basal Quartz and Devonian formations.

West Central Saskatchewan

Established in 1999, the West Central Saskatchewan area will receive more attention in 2001. This region is characterized by moderate deliverability natural gas reserves in multiple, shallow depth horizons in the Cretaceous such as the Colony and Mclaren channel sand trends. It is also a prolific producer of heavy oil for shallow Cretaceous formations such as the Waseca, Sparky and GP sands.

South East Saskatchewan

This area is Cavell's largest production base and is the Company's original area of operation. All of Cavell's oil production in South East Saskatchewan is a light to medium quality crude obtained from the Mississippian formation. The Mississippian formation is conducive to horizontal drilling due to its water drive mechanism, heterogeneous carbonate reservoirs and the poor sweep efficiency seen by conventional vertical wells.

East Central Alberta

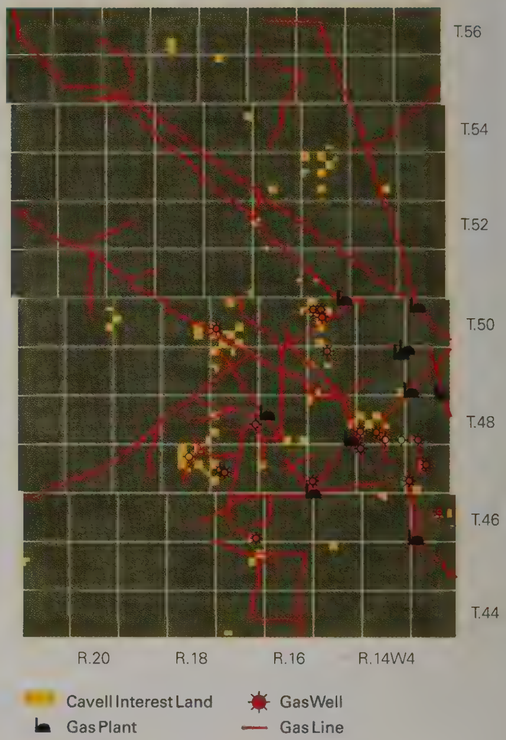
Cavell has a maintained a 100% working interest in all its properties in East Central Alberta. This area is currently producing 3,600 mcf per day up from an average of 2,273 mcf/d in 2000 and 190 mcf/d in 1999. Cavell has approximately 1,800 mcf/d of natural gas shut in that will be placed on production in the second quarter. Cavell has approximately 42,000 acres of land in the area.

East Central Alberta was the principal focus of Cavell's activities in 2000 with capital expenditures totaling $4.5 million.

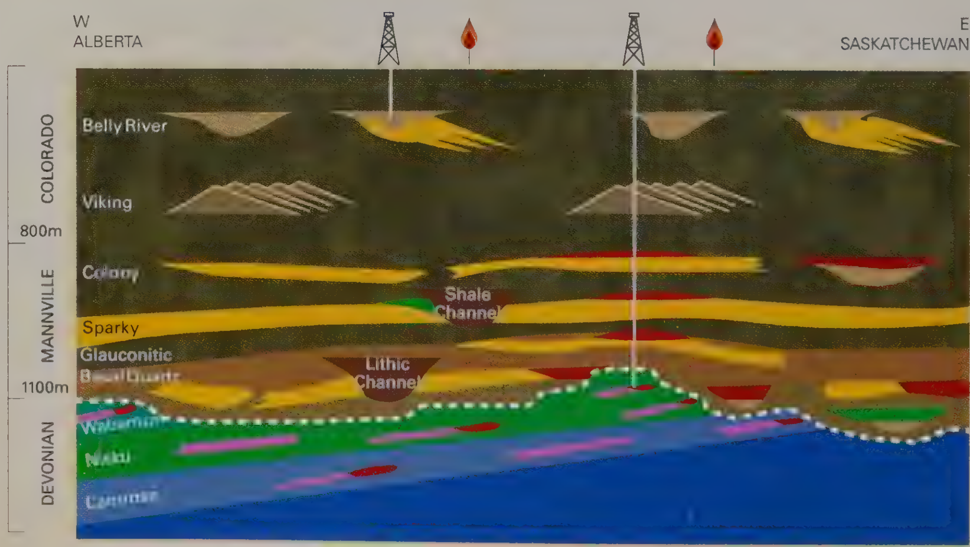
The East Central Alberta region accounted for:

- **53% of 2000 capital expenditures**
- **19% of 2000 production volumes**
- **8% of proven and probable reserves at December 31, 2000**
- **42% of undeveloped land holdings at December 31, 2000**

East Central Alberta



East Central Alberta



Cavell continues to focus on this area. During 2000, Cavell acquired over $0.7 million of new seismic information in this area. Furthermore, in the first half of 2001 Cavell is shooting a seismic program worth in excess of the cost of $1.0 million to evaluate more that 50 prospects. Exploration drilling results were positive. Cavell drilled 5 wells in this area in 2000 resulting in 5 natural gas wells. Cavell made significant natural gas discoveries at Bruce, Inland and Viking. These discoveries are leading to follow up locations to be drilled in 2001.

In 2001 Cavell will retain its focus on natural gas and this area will receive the majority of Cavell's attention and capital budget. Cavell plans to drill 18 wells in this area during 2001. In order to maintain Cavell's strategic advantages in this area, we are continuing our aggressive program of targeted land and seismic acquisition.

During the first quarter, Cavell successfully negotiated a new two-year farmin agreement with PanCanadian Petroleum Limited giving Cavell access to an additional 35 sections of land and 2,000 kilometres of PanCanadian seismic information. Cavell is currently shooting a large seismic program in the area and will re-commence drilling in the spring.

West Central Saskatchewan

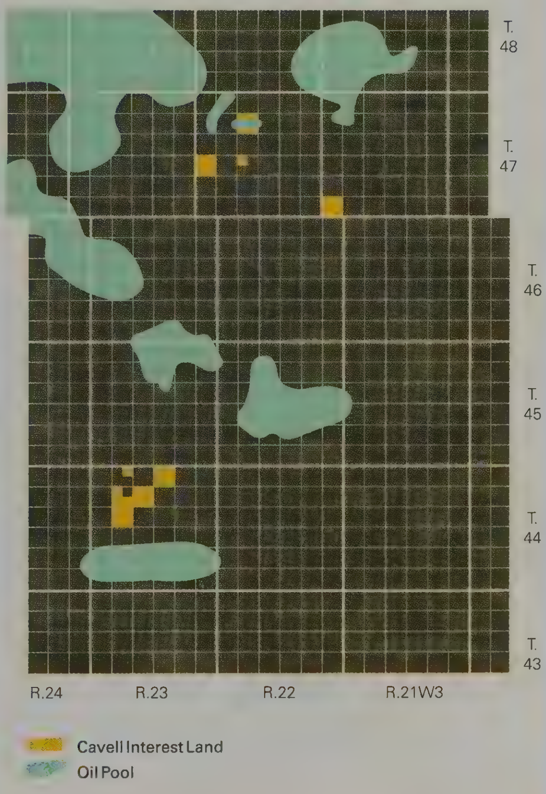
Cavell has a 50% working interest in the Baldwinton area and a 100% interest in the Birling area. These fields are currently producing 1,400 mcf/d up from an average of 574 mcf/d in 2000 and 500 mcf/d in 1999, and 250 bbls per day of heavy oil. Cavell has approximately 3,200 net acres of land in the area.

The West Central Saskatchewan region accounted for:

- 23% of 2000 capital expenditures
- 5% of 2000 production volumes
- 14% of proven and probable reserves at December 31, 2000
- 4% of undeveloped land holdings at December 31, 2000

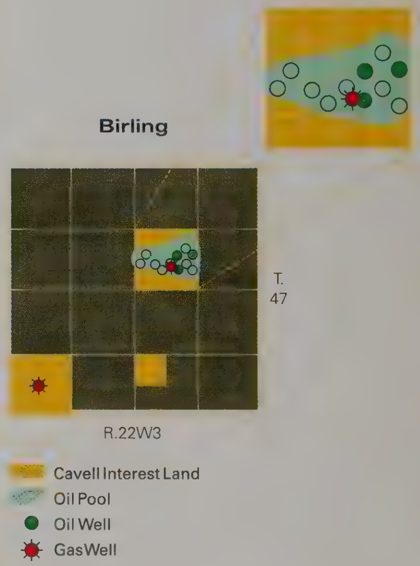
West Central Saskatchewan is expected to receive greater attention from Cavell in 2001 due to the attractiveness of the area's Colony and Mclaren natural gas bearing channel sands. Capital expenditures in this region during 2000 totalled $2.0 million. This program included the drilling of two net wells. During 2000, Cavell made a dual natural gas/heavy oil discovery at

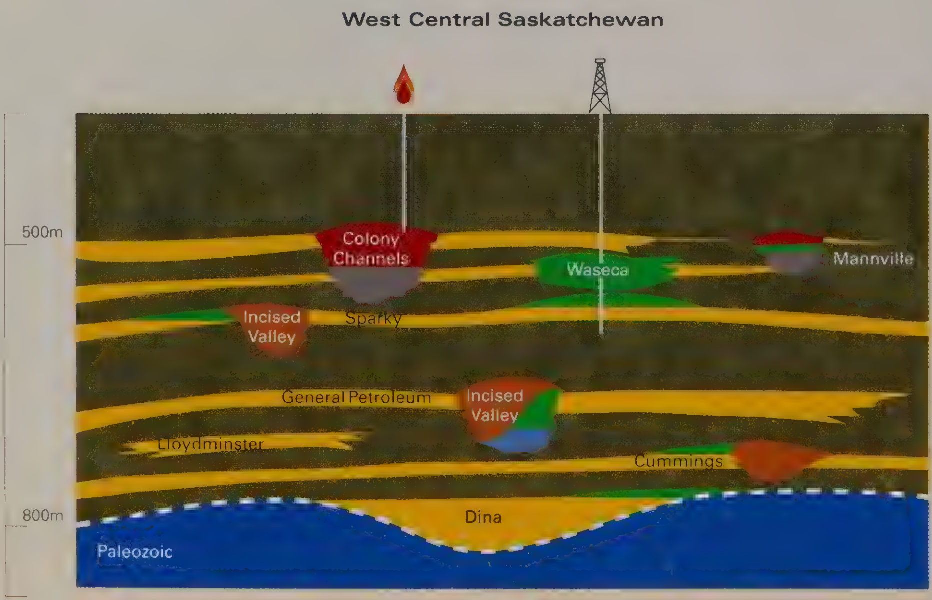
Birling/Baldwinton



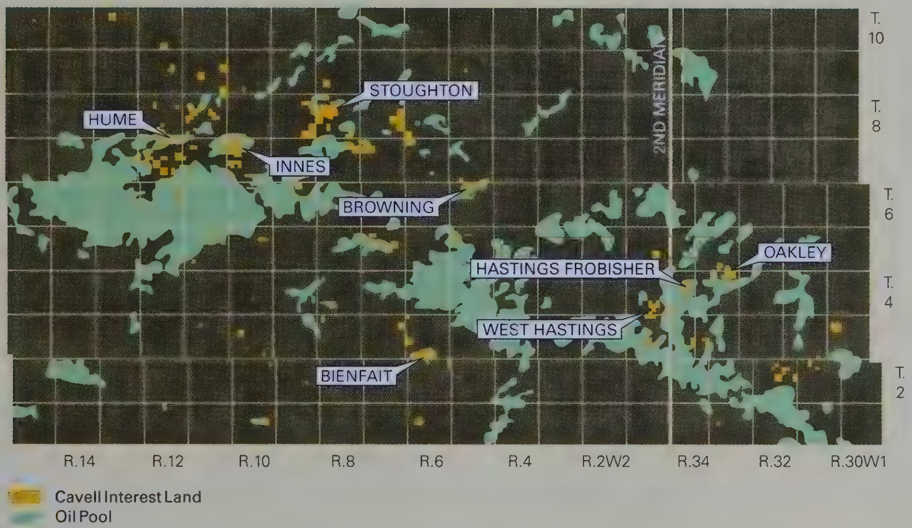
Birling. Subsequent to this discovery Cavell has drilled an additional gas well and three heavy oil wells. Current production is 1,400 mcf/d with an additional 1,000 mcf/d to bring on stream in the spring. Heavy oil production in the first quarter reached 250 bbls per day.

Cavell has invested in additional land and seismic resources in the area and believes that it will continue to grow in importance during 2001. This growth will result from new natural gas discoveries and through heavy oil reserve and production growth. Cavell's heavy oil discovery at Birling is significant and the Company is monitoring heavy oil prices and netback to determine the appropriate time for further capital investment. We believe that Cavell's heavy oil discovery at Birling holds great promise for sizeable increases in rates of production and reserves. At the right time, this property will be developed into a large, valuable producing asset.





South East Saskatchewan



South East Saskatchewan

Cavell has an average 80% working interest in its producing properties in South East Saskatchewan. This area currently is producing 1,200 boe/d, up from an average of 934 boe/d in 2000 and 979 boe/d in 1999. Cavell has approximately 52,000 net acres of land in the area.

The South East Saskatchewan core area accounted for:

- 24% of 2000 capital expenditures
- 76% of 2000 production volumes
- 78% of proven and probable reserves at December 31, 2000
- 54% of undeveloped land holdings at December 31, 2000

In terms of production rates, South East Saskatchewan continues to be Cavell's most significant core area. During 2000, Cavell produced an average of 900 bbls per day of light oil principally from five different oil pools. Currently Cavell is producing approximately 1,200 barrels of high quality light to medium oil per day in this area. Cavell has developed a sizeable inventory of development horizontal light oil locations in this area.

The Company believes that West Texas Intermediate (WTI) will average at least $U.S. 26.00/bbl during 2001 and is comfortable with allocating additional capital expenditures to this high net back light oil area. Cavell is planning to drill three horizontal wells in South East Saskatchewan in 2001. This capital expenditure represents approximately 21% of proposed total capital expenditures for this year. This planned investment will allow Cavell to take advantage of the high netbacks on production, which result from a combination of prolific horizontal wells and royalty holidays. Netbacks on horizontal production in Saskatchewan are normally high; however, in this period of high oil prices, they are even higher. In the current regime of U.S. WTI ranging between

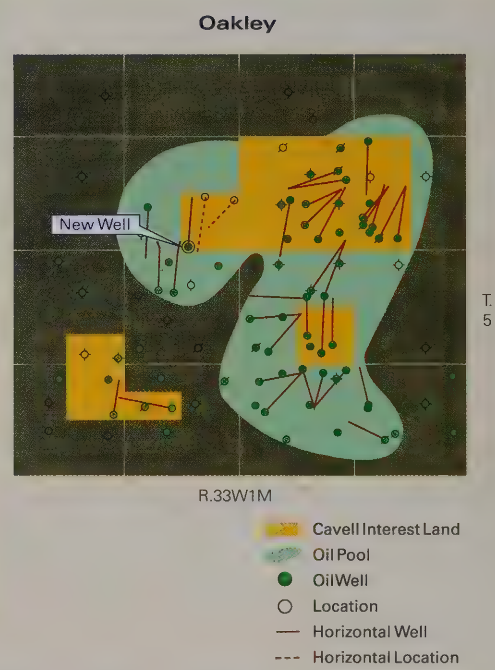
$U.S. 26.00 - 30.00/bbl, Cavell receives a netback in excess of $Cdn. 30/bbl of production from new horizontal wells.

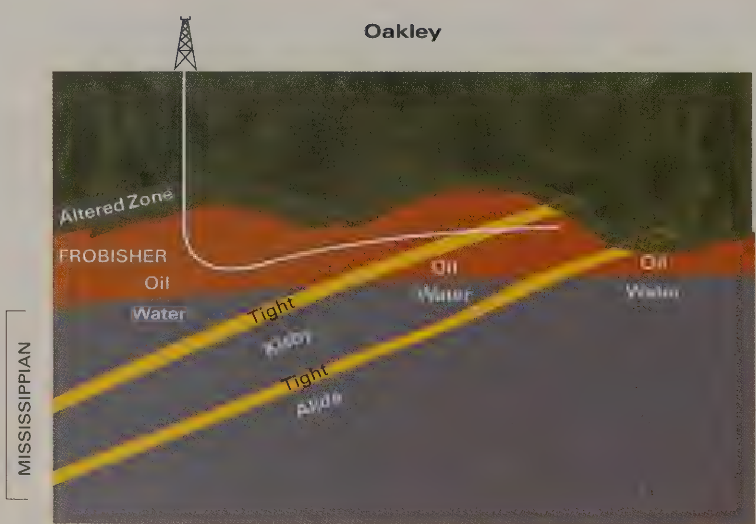
During the first quarter Cavell drilled the first of three planned horizontal wells at the Oakley pool. This well has been placed on production at a rate in excess of 200 bbls per day. Cavell plans to drill a second horizontal well at this location during the second quarter of 2001. The Company also plans to drill an additional well on its West Hastings property during 2001.

Major Oil Properties

Oakley

Cavell has working interests ranging from 80% to 100% in 1,616 gross (1,600 net) acres in the Oakley area, which is approximately 54 km northeast of Estevan, Saskatchewan. Currently there are 16 Cavell operated oil wells (14.9 net), of which 10 (9.8 net) are horizontal wells, producing approximately 500 boe/d net to Cavell from the Frobisher formation. Cavell recently drilled a new horizontal well at Oakley which has added additional production and created follow up locations.





West Hastings

Cavell is currently producing 55 net barrels of oil equivalent per day from five wells and Cavell has a 100% working interest in 3,126 gross (2,778 net) acres in the West Hastings area. During 2000 Cavell upgraded the battery by installing produced water disposal facilities. This upgrade has reduced the operating costs of this property through the elimination of produced water trucking and disposal charges and will allow the economic development of the property's potential. Cavell has identified two horizontal wells on this property.

Innes

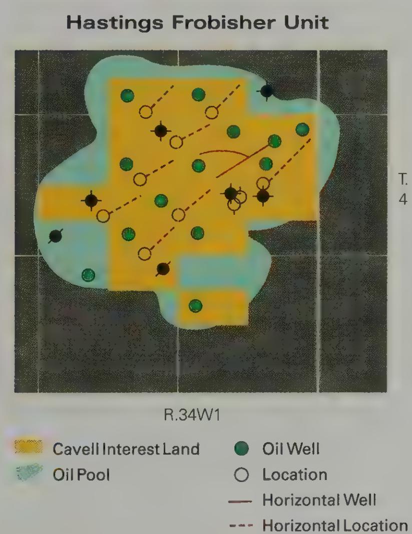
Cavell has working interests ranging from 6.25% to 100% in 4,821 gross (3,093 net) acres in the Cavell operated Innes field, which is located approximately 40 km southeast of Weyburn, Saskatchewan. Currently there are 29 oil wells (16.8 net), of which 20 (11.0 net) are horizontal wells, producing approximately 220 boe/d net to Cavell from the Frobisher formation.

Hume

Cavell has operated working interests ranging from 50% to 100% in 2,553 gross (2,073 net) acres in the Hume field, which is located approximately 25 km southeast of Weyburn, Saskatchewan. Currently there are 12 oil wells (11.1 net), of which three (2.6 net) are horizontal wells, producing approximately 60 boe/d net to Cavell from the Frobisher formation.

Stoughton

Cavell has a 100% working interest in 2,304 acres in the Stoughton pool, which is approximately 55 km east of Weyburn, Saskatchewan. Currently there are 13 oil wells, of which nine are horizontal wells, producing approximately 140 boe/d net to Cavell from the Frobisher formation.



Hastings Frobisher Unit

Cavell has a 38.4% interest in 1,280 gross (491 net) acres. The unit has 10 gross producing wells (3.8 net) producing approximately 40 boe/d net to Cavell from the Frobisher formation.

Bienfait

Cavell has a 75% working interest in the Bienfait property (2,020 net acres). At year-end there were 10 operated oil wells (7.1 net), which were producing 120 boe/d net to Cavell. Two horizontal wells have been drilled on the property with tentative plans to drill up to three more.

Petroleum Reserves

Cavell's petroleum reserves have been evaluated as at January 1, 2001, by Martin & Brusset Associates in its report dated February 15, 2001. The following table summarizes the key information of Cavell's petroleum reserves.

	Working Interest			Net		
	Oil mstb	Sales Gas mmcf	Total mboe	Oil mstb	Sales Gas mmcf	Total mboe
Proven producing	3,016	5,428	3,558	2,532	4,193	2,952
Proven non-producing	44	307	75	42	234	66
Proven undeveloped	1,464	783	1,543	1,231	646	1,295
Total proven	4,524	6,518	5,176	3,805	5,073	4,313
Risked probable (50%)	811	1,259	937	661	958	756
Total proven and risked probable	5,335	7,777	6,113	4,466	6,031	5,069

	Discounted Net Cash Flow Before Tax ($M)			
January 1, 2001	0%	10%	15%	20%
Proven producing	52,256	32,699	28,960	26,363
Proven non-producing	1,797	1,559	1,469	1,393
Proven undeveloped	19,463	13,266	11,515	10,190
Total proven	73,516	47,524	41,944	37,946
Risked probable (50%)	14,349	5,872	4,694	3,939
Total proven and risked probable	87,865	53,396	46,638	41,885

Note: columns may not add due to rounding

Price Forecasts	WTI ($U.S./bbl)	Edmonton ($Cdn./bbl)	Gas ($Cdn/mmbtu)
2001	26.00	38.50	7.25
2002	22.00	31.75	5.50
2003	21.00	30.00	4.00
2004	21.00	30.00	4.00
2005	21.50	30.50	4.00
2006	22.00	31.25	4.00
2007	22.50	32.00	4.00
2008	23.00	32.75	4.00
2009	23.50	33.50	4.00
2010	24.00	34.25	4.00
2011	24.50	35.00	4.05
2012+	Escalated @ 2 percent per year		

Undeveloped Land

The Company's undeveloped land prospects will continue to increase in 2001 through farmin, property acquisitions and Crown land sales. Cavell's objective is to maintain high working interest and operatorship of all lands acquired. Cavell's inventory of undeveloped acreage in East Central Alberta, West Saskatchewan and South East Saskatchewan is 97,230 net acres and has been valued by management at $67.00/acre totalling a value of $6.5 million.

Production

During 2000, the Company averaged 1,224 barrels of oil equivalent per day. The following table sets forth Cavell's production volumes, before royalties, by property for the periods indicated. All properties with the exception of the Bruce/Viking operations are in Saskatchewan. The Bruce/Viking gas property is located in Alberta. The U.S. properties were sold in 1999. Where amounts are expressed on a barrel of oil equivalent basis (boe), gas volumes have been converted to barrels of oil at ten thousand cubic feet per barrel.

Year Ended December 31,	**2000**	1999
Daily oil production (bbls/d)	**916.1**	1041.1
Daily gas production (boe/d)	**307.9**	17.9
Total boe/d	**1,224.0**	1,059.0

Year Ended December 31,	**2000**		1999	
Production by Area	**Volume (boe)**	%	Volume (boe)	%
Innes	**107,901**	**24.0**	144,219	37.3
Bruce/Viking	**83,176**	**18.6**	6,536	1.7
Stoughton	**57,948**	**12.9**	67,647	17.5
Oakley	**44,945**	**10.0**	48,864	12.6
Bienfait	**40,279**	**9.0**	10,701	2.8
West Hastings	**25,511**	**5.8**	24,504	6.3
Hume	**22,615**	**5.0**	26,642	6.9
Baldwinton	**17,928**	**4.0**	–	–
Browning	**17,921**	**4.0**	11,852	3.2
Hastings Frobisher Unit	**15,803**	**3.5**	11,287	2.9
Birling	**5,159**	**1.2**	–	–
U.S. operations	**–**	**–**	15,564	4.0
Other properties	**8,817**	**2.0**	18,597	4.8
	448,003	**100**	386,413	100

Wells

The following tables summarize Cavell's interests as at January 1, 2001, in producing wells and in non-producing wells which are capable of producing oil or natural gas or both. The stated interests are current working interests and, in certain cases, are subject to lessors' and other royalties in addition to usual Crown royalties or mineral taxes.

	Producing Oil Wells		Shut-In Oil Wells[2]	
Area	Gross Wells[1]	Net Wells[1]	Gross Wells[1]	Net Wells[1]
Innes	27.0	15.8	2.0	1.0
Stoughton	13.0	13.0	–	–
Oakley	16.0	14.9	1.0	0.8
Bienfait	10.0	7.1	–	–
West Hastings	5.0	5.0	–	–
Hume	12.0	11.6	–	–
Browning	6.0	5.4	–	–
Hastings Frobisher Unit	9.0	3.5	–	–
Birling	3.0	3.0	–	–
Other properties	7.0	1.1	2.0	2.0
Total	108.0	80.4	5.0	3.8
Average working interest	74.4%		76%	

	Producing Gas Wells		Shut-In Gas Wells[2]	
Area	Gross Wells[1]	Net Wells[1]	Gross Wells[1]	Net Wells[1]
Bruce/Viking	14.0	14.0	2.0	2.0
Baldwinton	1.0	0.5	–	–
Birling	–	–	1.0	1.0
Total	15.0	14.5	3.0	3.0
Average working interest	96.7%		100%	

Notes:

(1) "Gross Wells" means the total number of wells in which Cavell has an interest and "Net Wells" means the number of Gross Wells multiplied by Cavell's current working interest therein.

(2) "Shut-in" wells means wells which have encountered and are capable of producing crude oil or natural gas but which are not producing due to lack of available transportation facilities, available markets or other reasons.

Drilling History

The following table sets forth Cavell's gross and net exploratory and development wells including re-entries and the addition of legs in existing horizontal wells, drilled for the periods indicated.

Year Ended December 31,	2000		1999	
	Gross Wells[2]	**Net Wells[2]**	Gross Wells[2]	Net Wells[2]
Productive wells[1]	**14**	**10.2**	5	4.7
Suspended	**1**	**1.0**	–	–
Dry and abandoned	**2**	**2.0**	2	2.0
Total	**17**	**13.2**	7	6.7
Success rate	**85%**		70%	

Notes:

[1] "Productive well" means any well that at the time of rig release, in Cavell's opinion, was anticipated to produce sufficient revenues to cover necessary expenditures for completion costs, equipping costs, operating costs and royalties.

[2] "Gross wells" means the total number of wells in which Cavell has an interest and "Net wells" means the number of Gross wells multiplied by Cavell's working interest in such wells, shown on the basis that all interests convertible at payout have not been converted.

Capital Expenditures

The following table shows Cavell's capital expenditures on exploration, development and other types of capital expenditures for the periods indicated.

Year Ended December 31, ($000s)	**2000**	1999
Land acquisition	**1,443**	361
Acquisitions of producing properties	**–**	663
Geological and geophysical	**1,005**	549
Drilling and completion	**4,309**	2,039
Lease and well equipment	**1,063**	234
Production facilities	**672**	194
Other	**6**	–
Total expenditures	**8,498**	4,040
Proceeds on sale of property and equipment	**–**	(718)
	8,498	3,322

Net Asset Value

Cavell estimates that its 2000 year-end net asset value per issued share has increased 85% year over year, calculated as follows:

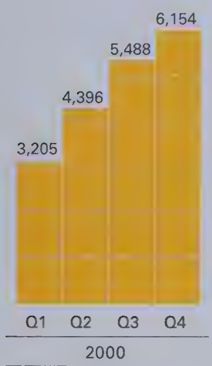
Year Ended December 31, ($000s, except as otherwise indicated)	2000	1999	% Change
Net present value of established reserves			
Discounted at 10%	**53,396**	34,249	56
Debt (including working capital deficit)	**(11,512)**	(12,701)	(10)
Undeveloped land and seismic*	**8,500**	3,424	148
Total	**50,384**	24,972	102
Outstanding common shares (thousands)	**32,295**	30,049	7
Net asset value per issued share	**$1.56**	$0.83	88

Based on net present value of established reserves discounted at 15%, the net asset value per issued share is $1.27.

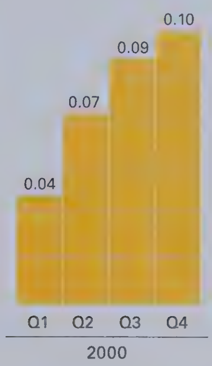
* Undeveloped land is valued at $67.00/acre and seismic values total $2.0MM

Management's Discussion & Analysis

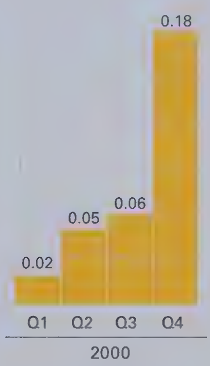
The following discussion and analysis of financial results should be read in conjunction with the Consolidated Financial Statements and Notes thereto for the year ended December 31, 2000. This discussion offers Management's opinion of Cavell's historical financial and operating results and is based on information available at March 6, 2001. Information provided for 2001 is based on assumptions about future events; actual results may vary from estimates, and the variations may be significant. Where amounts are expressed on a barrel of oil equivalent basis (boe), gas volumes have been converted to barrels of oil at ten thousand cubic feet per barrel. The terms funds flow and cash flow are used interchangeably between the Consolidated Financial Statements and Management's Discussion and Analysis and is prior to the change in non-cash working capital.



Petroleum and Natural Gas Sales ($M)



Funds Flow Per Share-Basic ($)



Net Earnings Per Share-Basic ($)

Average Production (mboe) 10:1

Natural Gas
Oil

Sensitivity Analysis

The Company's earnings and cash flow from operations are highly sensitive to changes in factors that are beyond its control. An estimate of the Company's sensitivities to changes in commodity prices, exchange rates and interest rates is shown in the table below.

	Funds Flow from Operations		Earnings	
	$000s	$/share	$000s	$/share
Change of $U.S. $1.00 in the WTI crude oil price	385	0.01	385	0.01
Change of $0.10 Cdn, in the natural gas price	87	0.00	87	0.00
Change of 1% in interest rates	108	0.00	108	0.00

Revenues

The increase of 82 percent in product prices in 2000 combined with a 16 percent increase in sales volumes combined to increase petroleum and natural gas sales to $19.2 million (1999 - $9.1 million) an 111 percent increase over 1999. Cavell also hedged a portion of its production in the first four months of 2000. Net settlement payments on hedging activities were in the amount of $0.6 million ($0.5 million - 1999) or $1.30/ boe ($1.29/boe – 1999). Cavell has not had hedges in place since April 30, 2000.

In 2000, Cavell increased its emphasis on natural gas production in East Central Alberta and West Central Saskatchewan. Total natural gas production increased to 3,079 mcf/d from 410 mcf/d in 1999. Sales revenue from natural gas increased to $6.2 million in 2000 ($0.3 million - 1999) as a direct result of a successful natural gas drilling program combined with a 169 percent increase in the price of natural gas per mcf. Natural gas sales accounted for 33 percent of the Company's petroleum and natural gas sales revenues.

Crude oil production decreased 10 percent in 2000 to 916 barrels of oil per day compared to (1999 – 1,018 barrels of oil per day) due partly to natural declines in the production base and a reduced emphasis on drilling for crude oil in South East Saskatchewan. Sales revenue for crude oil increased 48 percent to $13.0 million (1999 - $8.8 million) as a direct result of the 64 percent increase in product prices for the year 2000. Crude oil sales accounted for 67 percent of the Company's petroleum and natural gas sales revenues.

	2000		1999	
Petroleum and Natural Gas Sales by Area	**$000s**	**%**	$000s	%
Bruce/Viking	**4,683**	**24.3**	211	2.3
Innes	**4,132**	**21.5**	3,433	37.7
Stoughton	**2,248**	**11.7**	1,653	18.1
Oakley	**1,930**	**10.0**	1,287	14.1
Bienfait	**1,632**	**8.5**	330	3.6
West Hastings	**1,126**	**5.9**	683	7.5
Baldwinton	**1,036**	**5.4**	–	–
Hume	**910**	**4.7**	643	7.1
Browning	**744**	**3.9**	326	3.6
Hastings Frobisher Unit	**721**	**3.7**	308	3.4
Other	**372**	**1.9**	135	1.4
Birling	**288**	**1.5**	–	–
Settlement payments on hedges	**(579)**	**(3.0)**	(502)	(5.5)
U.S. operations	–	–	310	3.4
Wapella	–	–	298	3.3
Total	**19,243**	**100**	9,115	100

Quarterly Oil and Natural Gas Production Volumes (boe/d)	Q1	Q2	Q3	Q4
2000	**1,105**	**1,233**	**1,322**	**1,235**
1999	1,075	1,037	1,041	1,083

Production and Prices	**2000**	1999
Crude oil (barrels)	**335,296**	371,454
Natural gas production (mcf)	**1,127,070**	149,591
Barrels of oil equivalent (boe) 10:1	**448,003**	386,413
WTI oil price – $US/barrel	**$30.20**	$19.24
Average exchange rate	**0.67**	0.67
WTI oil price – $Cdn	**44.86**	28.58
Quality differential	**(5.96)**	(4.86)
Cavell oil price – $Cdn/barrel	**$38.90**	$23.72
Gas price - $Cdn (mcf)	**$5.50**	$2.04

Netbacks	**2000**	1999
Boe ($/boe)		
Volume (boe/d) 10:1	**1,224**	1,059
Volume (boe) 10:1	**448,003**	386,413
Average selling price	**$42.95**	$23.59
Crown royalties	**5.53**	2.88
Other royalties	**4.26**	2.62
Production expenses	**7.97**	6.35
Netback – field level	**25.19**	11.74
General and administrative	**1.99**	2.55
Interest	**2.20**	2.40
Capital taxes	**0.87**	0.80
Cash available for reinvestment	**20.13**	5.99
Depletion and amortization	**6.16**	5.60
Loss on sale of U.S. assets	**–**	0.94
Net earnings (loss) before future income tax benefit	**$13.97**	$(0.55)

Royalties

Royalty rates were consistent with those experienced in 1999 at 23 percent of sales revenue.

	2000		1999	
Royalties	**$000s**	**Rate %**	$000s	Rate %
Crown royalties, net of Alberta Royalty Tax Credit	**2,477**	**13**	1,113	12
Freehold and gross overriding royalties	**1,909**	**10**	1,012	11
Total royalties	**4,386**	**23**	2,125	23

Expenses

Production

Production expenses increased 45 percent to $3.6 million in 2000 from $2.5 million in 1999, due primarily to the increase in natural gas production which was $0.5 million of 2000 production expenses. Production increased 16% in 2000 when compared to 1999. On a barrel of oil equivalent basis, operating expenses were $7.97/boe in 2000 compared with $6.35/boe in 1999.

In 2001, Cavell expects to improve operating costs from $7.97/boe in 2000. Cavell will also strive to identify operating inefficiencies quickly to eliminate unnecessary expenditures.

With the high oil prices received in 2000, Cavell was able to economically reactivate a number of marginal wells which had been shut-in due to high operating costs. In 2001, Cavell's active drilling program will offset these high maintenance wells with more prolific low-cost wells, thereby bringing down the average operating cost per barrel.

	2000		1999	
Production expenses	**$000s**	**Per boe**	$000s	Per boe
Production expenses	**3,571**	**$7.97**	2,455	$6.35

General and Administration Expenses

General and administration expenses decreased 10 percent to $0.9 million in 2000 from $1.0 million in 1999.

	2000		1999	
General and Administration	**$000s**	**Per boe**	$000s	Per boe
General and administration expenses	**1,047**	**$2.34**	1,108	$2.87
Operator recoveries	**(155)**	**(0.35)**	(121)	(0.32)
Net general and administration expenses	**892**	**$1.99**	987	$2.55
Average number of head office employees	**12**	**–**	13	–
Number of head office employees at year-end	**12**	**–**	11	–

Interest Expense

Interest expense increased to $1.0 million in 2000 from $0.9 million in 1999 due to the increase in lending rates during the period, offset by a lower level of average debt outstanding in 2000.

Interest	**2000**	1999
Interest ($000s)	**$986**	$926
Average debt outstanding ($000s)	**$10,736**	$12,494
Average interest rate	**9.2%**	7.4%
Interest coverage	**9.1x**	2.5x

Depletion and Amortization

The total expense increased to $2.8 million in 2000 compared with $2.2 million in 1999 due primarily to a 32% increase in production for purposes of the depletion and site restoration calculations which are calculated by converting gas volumes to oil using heating value equivalents of 6 to 1.

	2000		1999	
Depletion and Amortization Expense	**$000s**	**Per boe**	$000s	Per boe
Depletion and amortization	**2,424**	**$5.41**	1,882	$4.87
Provision for future site restoration and abandonment	**338**	**0.75**	280	0.73
	2,762	**$6.16**	2,162	$5.60

Ceiling Test

In accordance with its accounting policy, Cavell carries out a ceiling test to compare the carrying value of its petroleum and natural gas property and equipment with an estimate of future net cash flow from production of proven reserves, less future site restoration and abandonment costs, capital costs, as well as general and administration expenses, financing costs, and income taxes, based on year-end prices and costs without escalating or discounting.

At December 31, 2000 the prices used in the ceiling test determination were $34.52/bbl and $10.79/mcf. Estimated future net revenues for purposes of the ceiling test exceed the carrying value of property, plant and equipment at December 31, 2000 and 1999. The ceiling test is a cost recovery test only and is not intended to result in an estimate of the fair market value of its capital assets.

Income Taxes

Effective January 1, 2000, the Canadian Institute of Chartered Accountants ("CICA") changed the accounting standard relating to the accounting for income taxes. The CICA's new standard on accounting for income taxes adopts the liability method of accounting for future income taxes.

The Company has adopted the new income tax accounting standard retroactively without restatement of prior periods. There has not been any change as at January 1, 2000 in the Company's deficit or future income taxes as a result of adopting the new income tax accounting standard. The effect of using the liability method in 2000 resulted in an increase to net earnings of $3.6 million in 2000 and an increase in future income tax assets of $3.6 million. Cavell incurred capital taxes of $0.4 million in 2000 ($0.3 million – 1999) including a 3.6 percent resource royalty surcharge on gross revenues earned in Saskatchewan. In addition, the federal government levies a large corporations tax.

	2000		1999	
Taxes	**$000s**	**Rate %**	$000s	Rate %
Future income tax benefit	**(3,600)**	**(18.7)**	–	–
Capital taxes	**391**	**2.0**	308	3.4
Total taxes	**(3,209)**	**(16.7) %**	308	3.4 %

Tax Pools	Rate %	Amount ($millions)
Canadian exploration expense	100	6.3
Canadian development expense	30	9.9
Canadian oil and gas property expense	10	7.1
Undepreciated capital cost	10 - 30	6.2
Non-capital losses	100	9.8
Total		39.3

Funds Flow and Earnings

Funds flow from operations increased to $9.0 million in 2000 from $2.3 million in 1999 due to higher commodity prices and increased gas production. Net earnings increased to $9.9 million compared to a loss of $0.2 million in 1999. On a per share basis, funds flow from operations increased 263 percent to $0.29 per share (1999-$0.08), and net earnings increased from a loss of $0.01 per share in 1999 to a net earnings of $0.32 per share in 2000.

Liquidity And Capital Resources

Additions to Capital Assets

In 2000, Cavell invested $8.5 million in property, plant and equipment (1999 - $3.3 million). These expenditures were primarily funded by funds flow from operations. For fiscal year 2001, Cavell plans to increase activity in developing our natural gas opportunities combined with placing on production oil development opportunities in South East Saskatchewan.

Additions to Capital Assets ($000s)

Year ended December 31,	**2000**	1999
Land acquisition	**1,443**	361
Acquisitions of producing properties	–	663
Geological and geophysical	**1,005**	549
Drilling and completion	**4,309**	2,039
Lease and well equipment	**1,063**	234
Production facilities	**672**	194
Other	**6**	–
Total additions to capital assets	**8,498**	4,040
Proceeds on disposal of capital assets	–	(718)
	8,498	3,322

Financing Program

Cavell uses funds flow from operations, equity capital, and bank debt as the major sources to finance its capital expenditures.

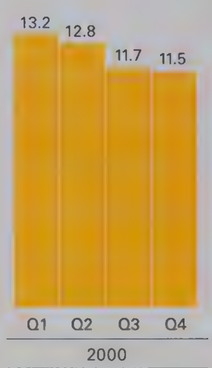
Equity Capital

The Company's common shares were listed for trading on the Toronto Stock Exchange on October 31, 1996. On August 20, 1999, the Company completed a rights offering of 4,433,477 common share units, which raised $0.7 million net of issue expenses. Included in the issue of common share units were 2,058,131 flow-through common share units at a price of $0.22 of which officers and directors purchased 108,000 flow-through units. Each unit included one common share and one-half warrant to purchase one common share. Prior to October 6, 2000, 2,178,465 warrants were exercised for gross proceeds of $0.7 million. The Company's market capitalization at December 31, 2000, was $17.8 million.

Bank Debt

The Company has a $12.5 million revolving operating demand loan, of which $11.5 million has been utilized at December 31, 2000 including working capital deficiency. The revolving operating demand loan bears interest at bank prime rates plus 1 percent. The loan is secured by all of the Company's assets with a first floating charge debenture and a general security agreement. Cavell reduced long-term debt by $1.8 million in 2000, and plans to reduce outstanding long-term debt in 2001 by application of funds flow from operations. Long-term debt on a forward basis is expected to be 0.8 times funds flow in 2001. Cavell plans to keep its long-term debt ratio to under 1.5 times funds flow.

A review of these borrowing arrangements based on an engineering evaluation of the Company's oil and gas properties will occur by April 30, 2001. No principal payments are required as long as Cavell continues to meet existing covenants.



Total Debt ($MM)
(Includes working capital deficiency)

Trading History	Q1	Q2	Q3	Q4	Year
High	$0.31	$0.42	$0.95	$0.76	$0.95
Low	0.13	0.17	0.30	0.47	0.13
Close	0.28	0.38	0.68	0.55	0.55
Volume (000s)	5,169,967	1,881,265	4,612,796	1,950,543	13,614,571

Corporate Governance

In accordance with the guidelines of the Toronto Stock Exchange, Cavell describes its corporate governance program in its Management Information Circular. Cavell has 100 percent of its reserves evaluated by an independent firm, and the audit committee of Cavell meets to review the Company's reserve report.

Business Risks

Crude oil and natural gas exploration, production, acquisition, and marketing operations involve a number of business risks. These include the uncertainty of finding new reserves and the instability of commodity prices. The Company mitigates these risks by employing highly competent professional staff and utilizing equity and funds flow from operations to fund capital expenditures so that debt does not become a burden. The Company generates its exploration prospects internally. Extensive geological, geophysical, engineering, and environmental analyses are performed before Cavell commits to drilling new prospects. Various procedures are utilized to ensure a suitable balance between risk and reward. Supply, competition, the U.S. dollar exchange rate, transportation, political stability and seasonal changes in demand resulting from weather patterns influence commodity prices. The value of the Canadian dollar, which is influenced by economic and political factors, affects the Company's petroleum and natural gas sales.

Historically, regulatory intervention and taxation have had a significant impact on the oil and natural gas industry. However, with the deregulation of the industry which began in 1985 and stable taxation levels, there is currently a reasonable operating environment in Canada for financially healthy companies. Nonetheless, the potential exists for this operating environment to change due to changes in taxation and energy policy.

The industry is subject to extensive regulations imposed by governments related to the protection of the physical environment. Environmental legislation in western Canada has undergone major revisions. Environmental standards and compliance are more stringent. The Company is committed to meeting its responsibilities to protect the physical environment wherever it operates and has instituted a series of controls and procedures with respect to environmental protection that meet the standards of the Environmental Code of Practice published by the Canadian Association of Petroleum Producers. The estimated liability for future abandonment and restoration costs is reviewed annually and is recorded in accordance with recommendations of the Canadian Institute of Chartered Accountants. Total future costs are estimated to be $5.7 million over the life of the oil and gas properties, of which $1.8 million has been recorded as a long-term liability, and the balance of $3.9 million to be provided for over the remaining life of the reserves.

Fiscal 2000 Quarterly Summary

Financial (thousands of Canadian dollars, except per share data)

	Q1	Q2	Q3	Q4	Year
Petroleum and natural gas sales	3,205	4,396	5,488	6,154	19,243
Royalties	747	925	1,286	1,428	4,386
Production expenses	730	829	970	1,042	3,571
Field netback	1,728	2,642	3,232	3,684	11,286
Funds flow from operations	1,196	2,092	2,648	3,081	9,017
Per share – Basic ($)	0.04	0.07	0.09	0.10	0.29
Per share – Diluted ($)	0.04	0.07	0.08	0.09	0.28
Net earnings	650	1,392	1,896	5,917	9,855
Per share – Basic ($)	0.02	0.05	0.06	0.18	0.32
Per share – Diluted ($)	0.02	0.05	0.06	0.17	0.31
Additions to capital assets	1,741	1,708	1,769	3,280	8,498
Long-term debt	11,100	11,190	10,590	9,678	9,678
Common shares outstanding					
End of period	30,049,599	30,099,199	31,049,713	32,295,564	32,295,564
Weighted average	30,049,599	30,067,599	30,467,611	32,295,564	30,721,658
Operations					
Oil (bbls)	85,061	84,585	85,482	80,168	335,296
Gas (mcf)	155,335	276,112	361,242	334,381	1,127,070
Average production 10:1	100,595	112,196	121,606	113,606	448,003
Average production (boe/d)10:1	1,105	1,233	1,322	1,235	1,224
WTI ($U.S./bbl)	28.73	28.63	31.58	31.86	30.20
Average sales price ($/boe)	31.86	39.18	45.13	54.17	42.95
Field netback ($/boe)	17.17	23.55	26.57	32.43	25.19
Wells drilled					
Gross	6.0	2.0	3.0	6.0	17.0
Net	3.2	2.0	3.0	5.0	13.2
Success rate (%)	100	50	100	83	85

During 2000, the Company retroactively adopted the treasury-stock method for determining diluted earnings and funds flow from operations per share. Prior to this change in accounting policy, the Company used the imputed earnings method to determine the dilutive effect of stock options and warrants.

As a result of this change in accounting policy, diluted earnings per Common Share was increased by $0.02 per share (1999 – no change) and diluted funds flow from operations per Common Share was increased by $0.01 per share (1999 – no change).

Fiscal 1999 Quarterly Summary

Financial (thousands of Canadian dollars, except per share data)

	Q1	Q2	Q3	Q4	Year
Petroleum and natural gas sales	1,677	2,025	2,498	2,915	9,115
Royalties	365	457	626	677	2,125
Production expenses	484	550	691	730	2,455
Field netback	828	1,018	1,181	1,508	4,535
Funds flow from operations	286	436	624	968	2,314
Per share – Basic ($)	0.01	0.02	0.02	0.03	0.08
Per share – Diluted ($)	0.01	0.02	0.02	0.03	0.08
Net earnings (loss)	(191)	(58)	(270)	307	(212)
Per share – Basic ($)	(0.01)	–	(0.01)	0.01	(0.01)
Per share – Diluted ($)	(0.01)	–	(0.01)	0.01	(0.01)
Additions to capital assets (net)	450	1,024	515	1,333	3,322
Long-term debt	12,850	13,275	12,125	11,500	11,500
Common shares outstanding					
End of period	25,616,122	25,616,122	30,049,599	30,049,599	30,049,599
Weighted average	25,616,122	25,616,122	27,640,100	30,049,599	27,236,963
Operations					
Oil (bbls)	94,538	91,479	93,292	92,145	371,454
Gas (mcf)	21,695	28,437	24,539	74,920	149,591
Average production (boe) 10:1	96,708	94,323	95,746	99,636	386,413
Average production (boe/d) 10:1	1,075	1,037	1,041	1,083	1,059
WTI ($U.S./bbl)	13.10	17.66	21.70	24.50	19.24
Average sales price ($/boe)	17.34	21.47	26.09	29.27	23.59
Field netback ($/boe)	8.56	10.78	12.34	15.14	11.74
Wells drilled					
Gross	–	–	5.0	2.0	7.0
Net	–	–	5.0	1.8	6.8
Success rate (%)	–	–	60	100	70

Management's Report

The accompanying financial statements and all the other information in this Annual Report are the responsibility of the management of Cavell Energy Corporation. The section entitled "Management's Discussion and Analysis" reflects the opinions of management of the current and future trends within the oil and gas industry and the impact these may have on Cavell Energy Corporation.

The financial statements have been prepared by management in accordance with those accounting principles generally accepted in Canada. The Company's systems of internal control have been created and maintained to provide reasonable assurance that assets are properly safeguarded and that the financial records are sufficiently well maintained to provide relevant, timely and reliable information to management and to allow preparation of financial statements in accordance with the Company's accounting policies. Certain estimates are made by management in the preparation of the financial statements. In management's opinion, the financial statements have been prepared within reasonable limits of materiality and within a framework of the significant accounting policies summarized in the notes to the financial statements.

KPMG LLP, an independent firm of chartered accountants, have been appointed by the shareholders to examine the financial statements and to report to the shareholders. The Audit Committee, consisting of a majority of non-management directors, met with KPMG LLP and with management to discuss the overall scope of the audit and to review the financial statements. The Audit Committee has reported its findings to the Board of Directors, who have approved the financial statements.

Murray D. McCartney	Arthur J.G. Madden
President and Chief Executive Officer	Vice President and Chief Financial Officer

Calgary, Canada
March 6, 2001

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Cavell Energy Corporation as at December 31, 2000 and 1999 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
March 6, 2001

Consolidated Balance Sheets

(thousands of Canadian dollars)

As at December 31,	2000	1999
Assets		
Current assets:		
Accounts receivable (note 8)	$ 3,046	$ 1,500
Prepaid expenses	83	47
	3,129	1,547
Capital assets (note 3)	32,732	26,691
Future income taxes (note 6)	3,600	–
	$ 39,461	$ 28,238
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 4,963	$ 2,748
Current portion of long-term debt	–	600
	4,963	3,348
Provision for future site restoration	1,757	1,452
Long-term debt (note 4)	9,678	10,900
Shareholders' equity:		
Share capital (note 5)	33,030	32,360
Deficit	(9,967)	(19,822)
	23,063	12,538
	$ 39,461	$ 28,238

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Murray D. McCartney
Director

Glen A.Volk
Director

Consolidated Statements of Operations and Deficit

(thousands of Canadian dollars, except per share data)

Years ended December 31,	2000	1999
Revenues:		
Petroleum and natural gas sales	$ 19,243	$ 9,115
Less royalties	4,386	2,125
	14,857	6,990
Expenses:		
Production	3,571	2,455
General and administration	892	987
Interest	986	926
Depletion and amortization	2,762	2,162
Loss on sale of U.S. assets (note 3)	–	364
	8,211	6,894
Earnings before taxes	6,646	96
Taxes (note 6):		
Capital taxes	391	308
Future income tax benefit	(3,600)	–
	(3,209)	308
Net earnings (loss) for the year	9,855	(212)
Deficit, beginning of year	(19,822)	(19,610)
Deficit, end of year	$ (9,967)	$ (19,822)
Earnings (loss) per Common Share (note 5):		
Basic	$ 0.32	$ (0.01)
Diluted	$ 0.31	$ (0.01)
Weighted average number of Common Shares outstanding during the year	30,721,658	27,236,963

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(thousands of Canadian dollars, except per share data)

Years ended December 31,	2000	1999
Cash provided by (used in):		
Operations:		
Net earnings (loss) for the year	$ 9,855	$ (212)
Items not involving cash:		
Depletion and amortization	2,762	2,162
Loss on sale of U.S. assets	–	364
Future income tax benefit	(3,600)	–
Funds flow from operations	9,017	2,314
Changes in non-cash working capital	326	650
	9,343	2,964
Financing:		
Repayment of long-term debt	(1,822)	(1,300)
Share capital, net of issue costs	670	740
	(1,152)	(560)
Investments:		
Additions to capital assets	(8,498)	(4,040)
Proceeds on disposal of capital assets	–	718
Changes in non-cash working capital	307	649
	(8,191)	(2,673)
Change in cash	–	(269)
Cash, beginning of year	–	269
Cash, end of year	$ –	$ –
Funds flow from operations per Common Share (note 5):		
Basic	$ 0.29	$ 0.08
Diluted	$ 0.28	$ 0.08
Supplemental disclosure of cash flow information:		
Cash interest paid	$ 980	$ 899
Cash income and other taxes paid	$ 547	$ –

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended December 31, 2000 and 1999

(thousands of Canadian dollars, except per share data)

1. **Basis of presentation:**

   The Company is engaged in the acquisition, development and production of petroleum and natural gas properties in the Western Canadian sedimentary basin. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary.

2. **Significant accounting policies:**

   As a determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these consolidated financial statements requires the use of estimates and assumptions, which have been made using careful judgment. In the opinion of management, these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

   (a) Capital assets:

   The Company follows the full cost method of accounting for oil and gas operations, whereby all costs of exploring for and developing oil and gas properties and related reserves are capitalized. Such costs include land acquisition costs, cost of drilling both productive and non-productive wells and related production equipment, lease rental costs on non-producing properties, geological and geophysical expenses and indirect general and administration costs related to exploration and development activities.

   Capitalized costs, excluding costs relating to unproven properties, are depleted using the unit-of-production method based on estimated proven reserves of oil and gas before royalties as determined by independent petroleum engineers. For purposes of the depletion calculation, natural gas reserves and production are converted to equivalent volumes of crude oil based on relative energy content.

   The costs of acquiring and evaluating unproved properties are initially excluded from depletion calculations. These properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of impairment is added to the costs subject to depletion.

   The Company applies a "ceiling test" to capitalized costs to ensure that the net costs capitalized do not exceed the estimated future net revenues from the production of its proven reserves, plus the cost of undeveloped lands, less impairment. Future net revenues are calculated at year end prices and include an allowance for estimated future general and administration expenses, interest expense, income taxes, and future site restoration costs.

   Gains or losses on the disposition of oil and gas properties are not recognized except under circumstances which result in a change in the depletion rate of 20% or more.

   Depreciation of furniture and office equipment is provided using the straight-line method based upon estimated useful lives at rates of 10% to 35%.

(b) Interest in joint ventures:

Substantially all of the Company's oil and gas exploration and development activities are conducted jointly with others and, accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

(c) Future site restoration and abandonment costs:

Site restoration and abandonment costs are provided for over the life of the estimated proven reserves on a unit-of-production basis. Costs are estimated each year by management in consultation with the Company's engineers based on current regulations, costs, technology and industry standards. The period charge is expensed and actual site restoration and abandonment expenditures are charged to the accumulated provision account as incurred.

(d) Financial instruments:

The Company periodically enters into derivative financial instrument contracts to manage exposure related to interest rates, petroleum and natural gas prices and foreign currency exchange rates. Amounts received or paid under interest rate swaps are recognized in interest expense, while settlement amounts on commodity and foreign currency hedge contracts are recognized in earnings as the related production revenues are recorded (see note 7).

(e) Per share amounts:

Diluted per share amounts are calculated using the treasury stock method. Diluted calculations reflect the weighted average incremental Common Shares that would be issued upon exercise of dilutive options and warrants assuming the proceeds would be used to repurchase shares at average market prices for the period. Anti-dilutive options and warrants are not included in the calculation.

(f) Stock option plan:

The Company has a stock option plan which is described in note 5(c). When stock options are granted, no compensation expense is recorded. Consideration received on the exercise of the stock option is credited to share capital.

(g) Income taxes:

Effective January 1, 2000, the Canadian Institute of Chartered Accountants ("CICA") changed the accounting standard relating to the accounting for income taxes. The CICA's new standard on accounting for income taxes adopts the liability method of accounting for future income taxes.

The Company has adopted the new income tax accounting standard retroactively without restatement of prior periods. There has not been any change as at January 1, 2000 in the Company's deficit or future income taxes as a result of adopting the new income tax accounting standard. The effect of adopting the liability method in 2000 resulted in an increase in net earnings of $3.6 million and an increase in future income tax assets of $3.6 million.

3. Capital assets:

2000	Cost	Accumulated depletion and amortization	Net book value
Petroleum and natural gas properties	**$ 64,698**	**$ 41,390**	**$ 23,308**
Production equipment and facilities	**16,882**	**7,724**	**9,158**
Other	**1,046**	**780**	**266**
	$ 82,626	**$ 49,894**	**$ 32,732**

1999			
Petroleum and natural gas properties	$ 57,949	$ 35,727	$ 22,222
Production equipment and facilities	15,220	11,049	4,171
Other	993	695	298
	$ 74,162	$ 47,471	$ 26,691

Unproved property costs of $2.6 million (1999 – $2.1 million) have been excluded from costs subject to depletion.

As at December 31, 2000, the estimated future site restoration costs to be accrued over the life of the remaining proven reserves were $3.9 million (1999 – $3.4 million).

During 2000, $790,000 (1999 – $840,000) of indirect general and administration costs were capitalized.

During 1999, the Company disposed of all of its United States petroleum and natural gas properties for net proceeds of $617,000 Canadian, resulting in a net loss of $364,000 Canadian.

4. Long-term debt:

The Company has an extendible revolving term credit facility with a major Canadian chartered bank in the amount of $12.5 million at December 31, 2000. Available borrowings are subject to periodic review of the Company's oil and gas borrowing base as determined by the bank. The bank has agreed that no principal repayments will be required during 2001 under the facility providing the Company continues to satisfy the provisions of the credit agreement. Borrowings under the facility bear interest at the bank's prime lending rate plus 1%, and are secured by all of the Company's assets with a first floating charge debenture and a general security agreement. During 2000, the Company paid interest of $937,000 (1999 – $821,000) on long-term debt.

5. Share capital:

(a) Authorized:

Unlimited number of Common Shares without par value.

Unlimited number of First Preferred Shares, of which none have been issued.

Unlimited number of Second Preferred Shares, of which none have been issued.

(b) Common Shares issued:

	Number of Shares	Amount
Balance, December 31, 1998	25,616,122	$ 31,620
Issued for cash	4,433,477	904
Share issue costs	–	(164)
Balance, December 31, 1999	30,049,599	32,360
Issued on exercise of warrants	2,178,465	653
Issued on exercise of options	67,500	17
Balance, December 31, 2000	**32,295,564**	**$ 33,030**

On August 20, 1999, the Company completed a rights offering of 4,433,477 Common Share units, which raised $740,000 net of issue expenses. Included in the issue of Common Share units were 2,058,131 flow-through Common Share units at a price of $0.22 per unit, of which officers and directors purchased 108,000 flow-through units. Each unit included one Common Share and one-half warrant to purchase one Common Share, expiring on October 6, 2000. During 2000, 2,178,465 warrants were exercised for gross proceeds of $653,000.

(c) Stock option plan:

The Company has a stock option plan to provide options for directors, officers and employees to purchase Common Shares of the Company.

The stock options are exercisable over a five year period exercisable on a cumulative basis as to 20% per six month period.

Changes in the number of options with their weighted average exercise price are summarized below:

December 31,	**2000**		1999	
	Number of Options	**Weighted Average Exercise Price**	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	**1,722,100**	**$ 1.64**	1,902,200	$ 1.74
Granted	**1,996,678**	**0.42**	–	–
Cancelled	**(702,500)**	**(0.99)**	(180,100)	(2.74)
Exercised	**(67,500)**	**(0.25)**	–	–
Repriced	**(435,600)**	**(1.93)**	–	–
Repriced	**435,600**	**0.25**	–	–
Outstanding, end of year	**2,948,778**	**$ 0.74**	1,722,100	$ 1.64
Exercisable, end of year	**995,240**	**$ 1.38**	1,334,370	$ 1.83

The following table summarizes stock options outstanding and exercisable under the plan at December 31, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.25 to $0.38	576,600	3 years	$ 0.26	388,240	$ 0.25
$0.40	1,670,000	4 years	0.40	401,500	0.40
$0.49	496,678	5 years	0.49	–	0.49
$5.40	205,500	1 year	5.40	205,500	5.40
$0.25 to $5.40	2,948,778	3.8 years	$ 0.74	995,240	$ 1.38

(d) At December 31, 2000, the Company has 500,000 warrants outstanding. Each warrant entitles the holder to acquire one Common Share for $1.80 until October 18, 2001.

(e) *Per share amounts:*

During 2000, the Company retroactively adopted the treasury-stock method for determining diluted earnings and funds flow from operations per share. Prior to this change in accounting policy, the Company used the imputed earnings method to determine the dilutive effect of stock options and warrants.

As a result of this change in accounting policy, diluted earnings per Common Share was increased by $0.02 per share (1999 – no change) and diluted funds flow from operations per Common Share was increased by $0.01 per share (1999 – no change).

A total of 705,500 options and warrants were excluded from dilution calculations as they were anti-dilutive.

6. Income taxes:

The provision for income taxes differs from the amount obtained by applying the combined Federal and Provincial income tax rate of 44.6% to earnings before taxes. The difference relates to the following items:

December 31,	2000	1999
Statutory tax rate:	**44.6%**	44.6%
Expected tax provision	**$ 2,964**	$ 44
Increase (decrease) resulting from:		
Crown royalties, net of ARTC	**1,108**	502
Resource allowance	**(1,313)**	(265)
Benefit of accounting losses previously unrecognized	**(6,359)**	(281)
Future income tax benefit	**(3,600)**	–
Capital taxes	**391**	308
	$ (3,209)	$ 308

The components of the net future income tax asset at December 31, 2000 is as follows:

Future income tax assets:		
Non-capital losses	$	4,365
Future site restoration		588
Share issue costs		44
Valuation allowance		(329)
		4,668
Future income tax liabilities:		
Capital assets		(1,068)
Net future income tax asset	$	3,600

7. Financial instruments:

The Company is exposed to fluctuations in commodity prices, interest rates, and exchange rates. The Company monitors and, when appropriate, utilizes financial instruments to manage its exposure to these risks.

Financial instruments are subject to fluctuations in prices and rates, but by nature of being hedges on an actual or anticipated transaction, any gains or losses are offset by gains or losses on the hedged transaction.

Counter-parties to the financial instruments expose the Company to losses in the event of non-performance. The Company deals with large, credit worthy institutions to minimize the risk of non-performance by counter-parties.

(a) Commodity price risk management:

The Company periodically enters into oil agreements to provide it exposure to a portfolio of pricing indices. At December 31, 2000 the Company had no price contracts in place.

(b) Foreign currency risk management:

The Company is exposed to foreign currency fluctuations. The Company periodically uses financial instruments, including forward exchange contracts and currency options to manage this exposure. At December 31, 2000 there were no contracts or options outstanding.

(c) Credit risk management:

Accounts receivable include amounts receivable for oil and gas sales. These sales are generally made to large, credit worthy purchasers. The Company views the credit risks on these items as minimal. Amounts receivable from joint venture partners included in accounts receivable are recoverable from production and, accordingly, the Company views the credit risks on these amounts as minimal.

(d) Fair values of financial instruments:

Accounts receivable and accounts payable have carrying values that approximate fair value due to the near term maturity of these financial instruments. Long-term debt has a carrying value that approximates fair value due to the floating nature of the interest rate.

8. Related party transaction:

At December 31, 2000, the Company had a loan outstanding to an executive officer and director for $111,512 (1999 – $111,085). This loan is evidenced by a promissory note, is secured by a pledge of 197,672 Common Shares of the Company and bears interest at prime plus 1% per annum.

Seven Year Summary

Financial (thousands of Canadian dollars, except per share data)	2000	1999	1998	1997	1996	1995	From Incorp. June 8 to Dec. 31/94
Petroleum and natural gas sales	**19,243**	9,115	8,920	22,507	21,606	13,716	2,868
Funds flow from operations	**9,017**	2,314	2,053	10,023	12,002	7,462	1,249
Per share – Basic ($)	**0.29**	0.08	0.08	0.39	0.69	0.53	0.10
Net earnings (loss)	**9,855**	(212)	(21,019)	(6,115)	4,620	2,646	258
Per share – Basic ($)	**0.32**	(0.01)	(0.82)	(0.24)	0.27	0.19	0.02
Additions to capital assets (net)	**8,498**	3,322	6,520	23,898	17,123	16,810	10,122
Long-term debt	**9,678**	11,500	12,800	7,800	–	6,143	6,312
Common shares outstanding							
End of year	**32,295,564**	30,049,599	25,616,122	25,616,122	25,521,122	15,007,143	12,150,000

Operations	2000	1999	1998	1997	1996	1995	From Incorp. June 8 to Dec. 31/94
Average production (boe/d)	**1,224**	1,059	1,426	2,518	2,275	1,784	684
Average sales price ($/boe)	**42.95**	23.59	17.14	24.49	25.95	21.06	20.35
Netbacks ($/boe)	**25.19**	11.74	8.62	13.41	17.46	14.20	13.08
Operating costs ($/boe)	**7.97**	6.35	5.31	4.61	3.63	3.04	3.51
Reserves – proven and							
probable unrisked	**7,051**	6,485	6,886	8,199	10,720	7,141	3,009
Wells drilled							
Gross	**17**	7.00	3.0	30.0	16.0	16.0	6.0
Net	**13.2**	6.8	2.1	18.7	13.5	13.0	4.8
Success rate (%)	**85**	70	100	83	87	100	100

Abbreviations

bbls	barrels
mbbls	thousands of barrels
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
mboe	thousand barrels of oil equivalent
mmboe	million barrels of oil equivalent
WTI	West Texas Intermediate
mcf	thousand cubic feet
mmcf	million cubic feet
mstb	thousand stock tank barrels
mmstb	million stock tank barrels
mmbtu	million British thermal units

Conversion

The following table sets forth certain standard conversions from Standard Imperial Units to the International System of Units (or metric units).

To Convert From	To	Multiply by
mcf	cubic metres (m^3)	28.174
cubic metres (m^3)	cubic feet	35.494
bbls	cubic metres	0.159
cubic metres (m^3)	bbls	6.290
feet	metres	0.305
metres	feet	3.281
miles	kilometres	1.609
kilometres	miles	0.621
acres	hectares	0.405
hectares	acres	2.471

Board of Directors

David J. Evans
President and CEO,
Defiant Energy Corporation
Chairman,
Cavell Energy Corporation

Henry J. Knowles
Counsel, Sheldon Huxtable
Non-Executive Secretary,
Cavell Energy Corporation

Bryan H. Lawrence
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Vice President,
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Stanley H. Wong
President,
Carbine Resources Ltd.

Officers

Murray McCartney
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Cavell Staff

Kathleen Black
Controller

Maria Giancola
Administrative Assistant

David Noruschat
Production Manager

Deborah Poirier
Administrative Assistant

Brad Rowsell
Geophysicist

Ross Runciman
Manager,
Business Development

Ken Swenson
Production Foreman

Rebecca Ward
Executive Assistant

Legal Counsel

Sheldon Huxtable
Toronto, Ontario

Banker

National Bank of Canada
600, 407 - 8th Avenue S.W.
Calgary, Alberta T2P 1E5

Evaluation Engineer

Martin & Brusset Associates
Suite 500, 808 - 4th Avenue S.W.
Calgary, Alberta T2P 3E8

Auditors

KPMG LLP
Calgary, Alberta

Head Office

Suite 1200, 500 - 4th Avenue S.W.
Calgary, Alberta T2P 2V6
Telephone: (403) 269-8337
Fax: (403) 264-1627
Website: www.cavell.com
Email: irelations@cavell.com

Field Office

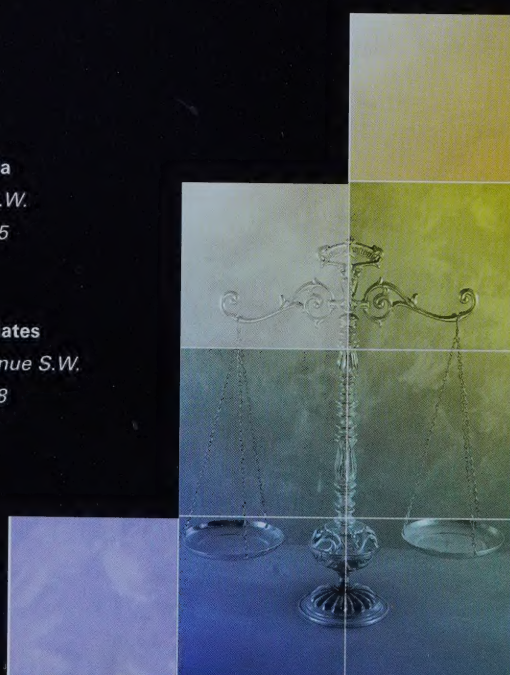
Midale, Saskatchewan

Stock Exchange Listing

Toronto Stock Exchange
Trading Symbol: ***KVL***

Transfer Agent

Computershare Investor Services
600, 530 - 8th Avenue S.W.
Calgary, Alberta T2P 3S8



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CAVELL
ENERGY CORPORATION

Suite 1200, 500 - 4th Avenue S.W.
Calgary, Alberta T2P 2V6
Telephone: (403) 269-8337
Fax: (403) 264-1627
Website: www.cavell.com
Email: irelations@cavell.com

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